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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 005104

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STATE PASS TO COMMERCE AND AGRICULTURE

STATE PASS USTR, PASS USDA FOR FAS/ITP/BOB MACKE,ALISON
THOMAS

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SUBJECT: RUSSIA-GEORGIA: BORJOMI MINERAL WATER BAN

REF: TBILISI 1131 AND PREV.

Classified By: Minister-Counselor for Political Affairs Kirk Augustine.
Reason 1.4 (b, d)

11. (C) Summary: Jacques Fleury, Managing Director of Georgian Glass and Mineral Waters (GGMW), producer of Borjomi water, outlined for us May 12 the company's recent troubles with the Russian government. A press campaign had turned into threats by the GOR to ban import of the water; the ban was announced one day after Georgian DefMin Okruashvili made provocative statements about Russia. Fleury did not believe that the identity of the firm's beneficial owner -- oligarch Badri Patarkatsishvili -- was a factor in Russian or Georgian government thinking on the issue. But Fleury had been warned by a GOR official that the problems could be resolved only at senior political levels -- and that GGMW should not make a public fuss about the ban until after the G-8 summit in July.
End Summary.

History of a Ban

12. (C) Fleury first detailed a strange case of poisoning that occurred in Moscow 18 months ago. Caustic soda was inserted in a bottle of Borjomi and served in an expensive restaurant, causing severe internal burns. Fleury said this method had been used in three attacks on Nestle in France several years ago. He said the sabotage against both Borjomi and Nestle was highly sophisticated.

13. (C) Fleury said that earlier poisoning was mentioned when the TV publicity campaign against Borjomi began April 7. The publicity charged that 50 percent of the Borjomi on the Russian market was counterfeit. Fleury said this was not true. He explained that after years of collaboration with RosPotrebNadzor (RPN), the Russian phyto-sanitary agency, counterfeiting of Borjomi has been reduced to between 0.5 and one percent of the Borjomi on the Russian market. All of the counterfeit water is produced by one source in Mari-el district. GGMW has been unable to stop this trade, as the manufacture is under the protection of the Mari-el local authorities and sold in kiosks. One hundred percent of the Borjomi actually imported into Russia is genuine, Fleury said, and GGMW has been able to prove this by comparing export figures with Russian customs import figures.

14. (C) Fleury said that RPN had then begun raids on warehouses of Borjomi distributors, and had confiscated

thousands of bottles each time. Fleury said GGMW officials and lawyers had been able to be present at some of these raids, had taken parallel samples, and sent them to the same official Russian laboratory that was to analyze the bottles confiscated by RPN. The laboratory cleared GGMW's samples, and informally told GGMW that RPN had not actually sent the samples to the lab before announcing that they violated Russian norms. Fleury said that RPN had not responded to repeated requests for the results of the RPN analyses.

¶5. (C) On April 24 RPN Chief Medical Officer Onishchenko announced that Borjomi was a good company and in all probability no action would be taken against its water. On April 25, in Kiev, Georgian DefMin Okruashvili announced that even "fecal matter" would sell on the Russian market. On April 26, Fleury said, Russian TV showed a news item in which fecal matter was discovered in Borjomi bottles, and Onishchenko announced that import of Borjomi would be banned. One hour after Georgian President Saakashvili's statement at the Vilnius Summit, all Borjomi was ordered off Russian store shelves.

Contacts with RosPotrebNadzor -- and an Unknown Factor

¶6. (C) Fleury said GGMW's long-term objective is to re-enter the Russian market, but in the meantime it has 25 million bottles worth USD 15 million sitting in warehouses in Russia. It wants to re-export them to sell in Ukraine and Kazakhstan, but is afraid that the GOR might then charge GGMW with the crime of trying to export a "dangerous substance."

¶7. (C) Fleury said he tried to address these issues in a May 11 meeting at RPN. Two of the RPN participants were technicians known to GGMW, but the third, who ran the meeting, was never introduced to them, and appeared not to be from RPN at all. This official said that GGMW was following a wise course by keeping a low public profile on the issue

MOSCOW 00005104 002 OF 003

(he contrasted this with a high-profile Georgian wine manufacturer who has threatened to bring Onishchenko to trial). The man implied that if GGMW stuck to this course, the GOR would revisit the issue after "mid-July" (Comment: i.e., after the G-8 Summit. End comment). The official said that nothing could change before then, though he said the GOR would look at the GGMW request to re-export its stocks from Russia. Meanwhile, the official warned that nothing could be resolved at the level of GGMW and RPN, only at much higher levels.

High-Profile Partners

¶8. (C) Fleury dismissed the possibility that GGMW's troubles with Russia might have something to do with GGMW's owners. He explained that the majority stake has been held since 2003 by New World Investments, a UK holding company whose beneficial owners were originally exiled oligarch Boris Berezovskiy and his partner Badri Patarkatsishvili, whose residence in his native Georgia provides refuge from his wanted status in Russia. Fleury explained that the two had a falling out, and Patarkatsishvili is now sole owner of the holding company. (The initial owners of GGMW, TBC Bank (Mamuka Khazaradze and Badri Japaridze), retain an 8 percent share in GGMW, and the management, including Fleury, own an unspecified small percentage as well.)

Financial Losses -- Georgian and Turkish

¶9. (C) Fleury said that the loss of the Russian market would reduce GGMW's annual sales from USD 240 million to USD 85 million. The major market that would remain is in Ukraine, where Borjomi and two Ukrainian factories owned by GGMW have a 31 percent market share. An additional loss would accrue

to a joint venture with Turkey's major glassmaker, Sise-Cam, which had just invested USD 25 million in a new GGMW factory in Borjomi as a way of making further inroads into the Russian market. The factory was scheduled to be inaugurated in July, but those plans are now on hold.

Relations with the Georgian Government

¶10. (C) Fleury said GGMW is distancing itself from the Georgian government as much as possible. He noted that the GOG's statements have more often hurt than helped. Fleury said that well-connected sources within the GOG had indicated to GGMW that Okruashvili's provocative stance in Kiev had been agreed in advance with President Saakashvili and MinInt Merabishvili. Fleury noted the current animosity between Georgia's leadership and GGMW beneficial owner Patarkatsishvili, but did not imply that it affected the GOG attitude in the Borjomi ban. Fleury recounted a conversation with people "close to the Kremlin" who, he is convinced, fully expect a war in South Ossetia that could easily be engineered by provoking the Georgians into a foolhardy reaction. (Note: We have heard this, too, but believe it is speculation based on the general anti-Georgian atmosphere rather than information from people who know what the Kremlin is planning. Similar rumors are circulating of refugee camps under construction in North Ossetia to house South Ossetian refugees from a potential new outbreak of fighting. End note.)

¶11. (C) Fleury said GGMW would try to get the EU to put pressure on the Russian government to end the ban. He said he was not seeking U.S. pressure at this point, as that might be counterproductive. He hoped, though, that the issue could come up for discussion at the G-8 summit. AgAtt explained that Russian WTO membership would be an incentive against this type of GOR action.

Comment

¶12. (C) Borjomi is a Russian institution. Its worldwide label includes a fountain and summer residence built in Likani by Mikhail Romanov for the Tsar's family in the 1890s. During Soviet times the brand had enormous cachet, which lasted through the springs' control by the Mkhedrioni militias in the early 1990s when, according to Fleury, 100 percent of the Borjomi available on the Russian market was counterfeit, made from "river water" (and probably included no small amount of fecal matter). A Russian nationalist politician, no friend of Georgia, spoke in the Duma about how

MOSCOW 00005104 003 OF 003

his aged mother would kill him if Russia banned Borjomi. Fleury has carefully ensured that the firm's Russian branches are staffed by Russians, and that only Russians, not Georgians, interface on the firm's behalf between Borjomi and the Russian authorities. That such a company should be caught up in current Russian-Georgian polemics shows the depth of Russian animosity towards Georgia.

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